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STRATEGY RESEARCH PROJECT

# FINANCIAL MANAGEMENT TRANSFORMATION (PERFORMANCE BASED BUDGETING)

BY

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#### **USAWC STRATEGY RESEARCH PROJECT**

## Financial Management Transformation (Performance Based Budgeting)

by

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The views expressed in this academic research paper are those of the author and do not necessarily reflect the official policy or position of the U.S. Government, the Department of Defense, or any of its agencies.

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#### **ABSTRACT**

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In considering measures to improve government performance and reduce cost, congressional and executive branch decision-makers require certain forms of information. The Government Performance and Results Act (GPRA) created requirements for agencies to generate this required data. The GRPA of 1993 mandates that all federal agencies adopt performance budgeting at the national level, with particular focus on Department of Defense (DoD). The underlying objectives of this act are: (1) to rebuild faith in the federal government and to hold agencies accountable for accomplishing results; (2) to introduce change; (3) to refine effectiveness and liability; (4) to aid federal managers in improving the delivery of service; (5) to improve congressional judgment forming, and (6) to improve internal management of the federal government. Performance based budgeting is a logical successor to planning-programming-budgeting system (PPBS). DoD continues to struggle with performance budgeting and implementation. This strategic study analyzes the evolution and changes in federal budgeting in the 1990's, reasons to consider performance budgeting, impediments in implementing performance budgeting and GAO assessment in DOD.

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#### PERFORMANCE BASED BUDGETING

"In order to produce a simpler, more understandable and more satisfactory budget plan for congressman, newspaper reporter and the general public, the present ponderous budget document needs to completely recast along the lines of work programs. This is known as the program or performance budget, which analyzes the work of governmental departments and agencies according to their major functions, activities or projects. It thus concentrates upon the general character and agencies, rather than the things to be acquired by the departments and agencies, such as personnel services, contractual services, supplies, materials, equipment and so on. The latter things are only means to an end. The all-important consideration in budget is the work or service to be accomplished." Hoover Commission 1950 <sup>1</sup>

Since the events of September 11 the United States is not only in a different era or period based on the terrorist attacks and the war on terror, but an era of total budget uncertainty. All federal agencies are vying for significant increases based on the new threat. The ramifications of the attack will be wide spread. An area that is not often projected to the public is the impact the terrorist attacks will have on the federal budget and the related cost. The United States was already in an era of economic downturn, in which government revenues are growing at a much slower rate than the demand for expenditures and programs. How the president and congress are able to allocate funding for the added services and cost of the war will considerably impact future defense budgets.

A number of recent legislative initiatives since 1990 have been aligned to assist in federal budgeting. If these initiatives are implemented properly, it can bring clarity to future programs and expenditures. The legislation enacted has created a system called performance budgeting, whereby the outcomes of expenditures are measured and evaluated for effectiveness and efficiency. Government actions in the past were concerned mainly with prioritizing services based on needs and demands, greater public awareness of tax burdens, technology and policy has help ensure that those resources spent are put into services where they will be used to their utmost potential.

The key benefit of the performance measurement approach to budgeting is that the allocation of funding is linked to what a program is able to achieve. This differs from conventional budgeting, which focuses on increasing line items of expenditures such as personnel, equipment, supplies, etc., when caseloads or requirements grow, regardless of a program's ability to meet goals. In performance budgeting departments and program managers are held accountable for outcomes, spending is prioritized based on a program's ability to successfully reach goals, and comparative data allows policy makers to understand the range of results that can be accomplished through different levels of spending.

Performance budgeting is useful to any organization with long-range goals. Appropriate performance measures that accurately reflect agency efforts and accomplishments are essential for a successful planning and budgeting process. The performance budget should be formulated using accurate and reliable financial data on actual spending and program performance. Audited financial statements and reports should be the source of these data. These reports should address, (1) the full cost of achieving program results, (2) the value of what the department owns and what it owes to others, (3) the department's ability to satisfy future commitments if current policies were continued, and (4) the department's ability to detect and correct problems in its financial systems and controls.<sup>3</sup>

Accurate financial information is crucial to making sound decisions and controlling assets so that the Department of Defense's mission and goals are efficiently and effectively accomplished.<sup>4</sup> DOD's vast operations, including \$1 trillion in assets and reported liabilities and a reported net cost of operation of \$378 billion in fiscal year 1999, effective asset accountability and reliable financial information are critical.<sup>5</sup> In an effort to achieve this accountability, the military must encompass in its transformation the implementation of Performance Based Budgeting.

It would be easy to guarantee on what performance budgeting can do and then be disappointed by what it actually produces. Frankness demands that we admit two things about performance budgeting: it is very hard to do; and even if done well, it cannot possibly solve all of our problems. It is a not a panacea that will produce balanced spending plans without painful choices, it is a promising tool for strategic leaders and policy makers. Throughout the remainder of the paper I will focus on the evolution of federal budgeting changes in the 1990's that brought about performance based budgeting (PBB). Then the process, preparation and obstacles in implementing PBB in the Department of Defense and the assessment from GAO.

#### PROGRESSION TOWARDS PERFORMANCE BUDGETING

The most common type of budget that is created is usually a line item or object classification. The line-item budget shows how much the President proposes to spend on each program, and how that money should be allocated among various accounts. The most important strength of this type of budget is that it makes it possible to control or micro manage the process. The leaders that compile the budget ascertain firm expenditure requirements in detail; this reflects how every dollar is to be utilized. However, this strength may also be viewed as a shortcoming since it discourages planning and promotes bottom-up, rather than top-down budgeting. An additional downfall of the line item budget is that it appears to overwhelm top-

level managers with details, thereby limiting post-budget evaluation. The shortcomings present a format that provides a weak linkage to anticipated program results.<sup>9</sup>

These shortfalls have laid the foundation for the federal government to choose a path of transition to performance budgeting. Public attention has increasingly focused on improving the performance and accountability of federal programs, bipartisan efforts in Congress and the White House have produced a number of legislative mandates for budget reform. Two things are clear about managing government in the new millennium: return on investment will be the focus, and program managers will be expected to deliver it. All of the 1990's management reforms were in one way or another designed to make government's business leaders more accountable for getting a good return on taxpayers' investment. The following is an outline and summary of the initiatives that have taken placed since 1990 to bring about performance budgeting.

#### THE CHIEF FINANCIAL ACT OF 1990 (CFO)

The purpose of the CFO Act is to improve the general and financial management practices in the federal government by requiring the development of an integrated financial management system, including financial reporting and internal controls. The Act establishes a financial management leadership structure, requires preparation and audit of financial statements (for certain agencies) that conform to General Accepted Accounting Principle GAAP, and strengthens accountability reporting. The act also requires the appointment of a chief financial officer in operating departments and agencies. <sup>12</sup>

#### THE GOVERNMENT PERFORMANCE AND RESULTS ACT OF 1993

The intended purpose was to improve citizen confidence in government by holding agencies accountable for program results. <sup>13</sup> The GRPA 1993 mandates that all federal agencies adopt performance budgeting at the national level, with particular focus on Department of Defense (DoD). The underlying objectives of this act are: (1) to rebuild faith in the federal government and to hold agencies accountable for accomplishing results; (2) to introduce change; (3) to refine effectiveness and liability; (4) to aid federal managers in improving the delivery of service; (5) to improve congressional judgment forming, and (6) to improve internal management of the federal government. <sup>14</sup>

#### THE GOVERNMENT MANAGEMENT REFORM ACT OF 1994 (GMRA)

The purposes of GMRA are to provide a more effective, efficient, and responsive government through a series of management reforms primarily for federal human resources and financial management. The Act requires a government-wide financial statement, for FY 1997 and each year after, prepared by the Secretary of the Treasury in coordination with the Director of OMB, audited by the U. S. Comptroller General, and reflecting the overall financial position of the U. S. Government, including assets and liabilities and results of operations.<sup>15</sup>

#### THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA)

Building on and complementing the CFO Act, GPRA, and GMRA, the FFMIA Act provides for the establishment of uniform accounting systems, accounting standards, and accounting reporting systems in the federal government and for related purposes. It is intended to increase the capability of agencies to monitor the execution of their budgets by providing better support for the preparation of reports that compare spending of resources to results of activities.<sup>16</sup>

#### INFORMATION TECHNOLOGY MANAGEMENT REFORM ACT OF 1996

This act requires that agencies set goals, measure performance, and report on progress in improving the efficiency and effectiveness of operations through the use of information technology. This act is intended to complement, not substitute for, these federal statutes, accompanying congressional reports, and guidance from OMB. It is intended to assist federal agencies in implementing GPRA.<sup>17</sup>

#### **CLINGER-COHEN ACT OF 1996**

The purpose of the Clinger-Cohen Act (CCA) is to improve the productivity, efficiency, and effectiveness of federal programs through the improved acquisition, use, and disposal of information technology (IT) resources. The law provides the following (1) encourages federal agencies to evaluate and adopt best management and acquisition practices used by both private and public sector organizations; (2) requires agencies to base decisions about IT investments on quantitative and qualitative factors associated with the costs, benefits, and risks of those investments and to use performance data to demonstrate how well the IT expenditures support improvements to agency programs, through measurements such as reduced costs,

improved employee productivity, and higher customer satisfaction; and (3) requires executive agencies to appoint executive-level chief information officers (CIO). 18

#### NATIONAL DEFENSE AUTHORIZATION ACT OF 1998

This act requires that the Secretary of Defense submit to Congress a biennial strategic plan for the improvement of financial management within the Department of Defense. The plan shall be submitted not later than September 30 of each even-numbered year. It also requires that the biennial plan contain a concept of operations detailing how DOD intends to manage its financial operations.<sup>19</sup>

Congress has taken steps to amend the method in which federal agencies accomplish their business. Decades of significant neglect in federal financial management operations and reporting have initiated the performance based budgeting era. From the summaries above the legislation plan have tried to propel the federal government in a different direction. Congress' intention is to hold agencies accountable for their performance lay at the center of two benchmark amendment of the 1990's: the Chief Financial Officers Act of 1990 and the Government Performance Results Act of 1993. With these two laws, a new and more businesslike framework has been imposed.

#### STEPS AND PROCESSES IN PERPARING A PERFORMANCE BUDGET

When Government Performance and Results Act was first implemented, many felt that government management was somehow *different*, the same rules that applied to the private sector could not apply to the public, or at least not in the same way. After all government, agencies do not have a bottom line or profit margin. However, recent efforts repeatedly indicate that is not true. The bottom line for most government organization is their mission: what they want to achieve. The intend in performance based budgeting is to translate and link the mission with resources.

Public officials around the nation have used the words performance and performance measurement over the last half century as in the Hoover Commission in the introduction, but particularly the last decade. The emphasizes is on the need for a linkage between the funds provided by the public and expectations of the public as to the level of service those funds should provide. The key to this linkage is through a strategic planning process, initiated as a first step in order to clarify the mission, goals, and objectives of the particular agency or department. Throughout this process, the organization identifies the outcomes it expects to achieve via its program. <sup>21</sup>

#### STRATEGIC PLANNING

Strategic planning is a topic all to its own, but needs some clarification, as it is the key first step in developing a performance budget. Strategic planning is a continuous and systematic process by which people make decisions about intended future outcomes, how outcomes are to be accomplished, and how success is measured and evaluated.<sup>22</sup> It becomes a road map for how managers propose results. A good strategic plan has six basic elements or steps: mission, needs assessment, strategic objectives, outcome measures, strategies, and performance evaluation.

Mission Statement – in just a few sentences a mission statement needs to talk the real meaning of your organization to your stakeholders and to the public.<sup>23</sup> Needs Assessment – the key here is what are you trying to accomplish. What are the organizations goals, long and short. This will produce your needs. Strategic Objectives - what is to be achieved, this will move the organization from its current state to the desire future state. Is it acquisition of a new aircraft or ship?<sup>24</sup> Outcome Measures – in my recent experience with strategic planning I believe this is where DOD organizations break down in the process. This is the key element in translating the strategic plan into a performance budget. If you are unable to articulate solid outcome measures for your program, it quickly becomes a blur and the budgeting process will become painful. Strategies - once the organization mission, needs, objectives and outcomes are identified, then it is to the point to begin to outline how to advance them. For example strategies can be the broad overarching approach of development of a new ship or the specific of a propulsion system in a new ship. It becomes your battle plan in the process.<sup>25</sup> Performance Evaluation - performance evaluation and revision must be an integral part of all phases and elements of the strategic planning process. Without ongoing evaluation, changes made late in process will be expensive both in effort already expended and capital. This evaluation must include stakeholders and customers. Consensus throughout the process must become an integral part. Any faulty information or lack of consensus becomes a possible base for failure to reach your mission.<sup>26</sup>

#### PERFORMANCE MEASUEMENTS

The second step is to connect these plans to performance measurements, indicators or metrics. Performance measures are objective indicators of program effectiveness and or efficiency that are directly tied to program results. Performance measurement is the label typically given the many efforts undertaken within governments and nonprofit sector to meet the

new demand for documentation of results.<sup>27</sup> If the measurements are made it should work much like a car's speedometer or roadside milepost, they enable management to quickly visualize where the organization is in relation to where it is committed to be.<sup>28</sup> These are often called dashboard indicators.

Designing a performance measurement system is an enormously time and resource-consuming process that should be undertaken with clear expectations among relevant stakeholders about what is needed.<sup>29</sup> Political will from the top of the pertinent organization must be in place to secure the necessary resources and political commitment from stakeholders. In the development process, multiple stakeholders involved with programs must work together to come to agreement on programmatic mission and objectives, on the potential use of performance measures, and on the set of performance indicators that will be useful to them.<sup>30</sup>

There are several types of performance indicators that are often used in performance measurement systems. The Governmental Accounting Standards Board has recommended five types of information for indicators of performance: (1) Input, (2) Output, (3) Outcome (4) Efficiency, (5) Explanatory Information.<sup>31</sup> The following paragraph defines each of these indicators.

Input Indicators - Government Accounting Standards Board (GASB) defines them as indicators that are designed "to report the amount of resources, either financial or other (especially personnel), that have been used for a specific service or program. Input indicators are ordinarily presented in budget submissions and sometimes external management reports." 

Output/Workload Indicators - these indicators report units produced or services provided by a program. Workload measures indicate the amount of work performed or the amount of services received. 

Outcome/Effectiveness Indicators - these measures are designed to report the results (including quality) of the service. It is usually a method for examining how well a government is meeting the public purpose it is intended to fulfill. 

Another way to put it, effectiveness refers to the degree to which services are responsive to the needs and desires of an organization, such as the readiness of an Armor Unit. It encompasses both quantity and quality aspects of a service. Examples of outcome indicators are the change in readiness of a squadron of ships or planes. Efficiency (and Cost-Effectiveness Indicators) - efficiency measurement is a method for examining how well a government is performing the things it is doing without regard to whether those are the right things for the government to do. 

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Specifically, efficiency refers to the ratio of the quantity of the service provided (e.g., the amount of meals served at Ft. Bragg) to the cost, in dollars or labor, required to produce the service. According to GASB, these indicators are defined as indicators that measure the cost (whether in dollars or employee hours) per unit of output or outcome. *Productivity indicators -* productivity indicators as combining the dimensions of efficiency and effectiveness in a single indicator. For instance, airplanes repaired per labor hour, reflects efficiency, and percentage of airplanes repaired properly (e.g., not returned for further repair within 6 months) reflects effectiveness, unit costs (or labor-hours) per effective airplane repair reflects productivity. The costs (or labor-hours) of faulty airplane repairs as well as the costs of effective repairs are included in the numerator of such a calculation, but only good repairs are counted in the denominator--thereby encouraging efficiency and effectiveness of and by airplane maintenance personnel.

In numerous circumstances, along with the aforementioned indicators, a little supplementary information is desirable to make a sound conclusion about service provision. GASB, for example, specifies certain types of explanatory information for its suggested list of indicators for service efforts and accomplishments.

#### PERFORMANCE STANDARDS

The third phase in preparation of a performance budget calls for setting of satisfactory performance standards. Program accountability involves comparing actual program outcomes or results and comparing them against some agreed upon standards.<sup>37</sup> Potential standards of comparison include previous performance, performance of similar organization, performance of the best organization, and pre-set targets. The following is some criteria for a good set of performance measure standards and indicators that should reflect the collected data to prepare a performance budget. The data should be: valid, reliable, understandable, timely, comprehensive, sensitive to data collection cost, and alert to controllable aspects of performance. The following paragraph defines each of these characteristics.

Valid – performance measures must be valid representation of the quantity and quality of the services provided by an agency, organization or program.<sup>38</sup> Reliable – anything can be measured; the goal is not to simply measure or develop a monthly metric, but to measure factors that the agency, organization or program have control. Control over the measure helps to prevent unreliable data and produces guess work.<sup>39</sup> Understandable – performance measure should be clear, easy to understand and to use. If they are too difficult to produce or complicated, they will quickly become of little use.<sup>40</sup> Timely – performance measures should be

designed to provide feedback about the effectiveness of the agency, organization or program. If they are not timely, they will be useless data and indicators. Comprehensive – performance measures should be linked and incorporated with all phases of public planning, budgeting, and management systems. Sensitive to data collection cost – a good performance measurement system requires a considerable and constant investment in data collection. Because data collection is expensive, both in terms of dollars and personnel time, organization must cautiously evaluate the value of performance measures, the investment in collection, and alternate ways to collect this data. Alert to Controls – in any data collection there must be some type of controlling variables to valid the data. Good controls must be in place when changes are made in the organization, these controls assist in telling whether these changes increase or decrease a program cost benefit ratios.

It is essential that standards are complete; however, it is difficult to develop a single standard or goal that will indicate the effective overall performance.<sup>45</sup> Too many leaders are looking for that one magic number that will tell them how well the organization is doing or how their personnel are performing.<sup>46</sup> Leaders should see that the metric or performance standard assigned, like planning objectives, is limited. Standards set too low are usually accomplished but not exceeded, while standards set too high usually do not motivate the workers to expend much effort to reach the goal. This supports the fact a balanced set of measures cannot be established overnight. It must be given time to develop, and the organization must be given time to adapt. Flexibility is the watchword here.

#### REPORTING

The fourth step is reporting. Whether an organization is successful in carrying out its missions is determined by the ability to meet or surpass the goals outlined in its strategic and performance plans. A good organization uses objective and verifiable performance metrics, regular management insight and review processes, or comparable tools to assess its performance at all levels. At each level managers and leaders, participate in setting performance target, evaluating performance against those targets, and reporting the results. If performance measures are carefully chosen and applied, the annual performance evaluation becomes one of the most important budget tools, identifying problem areas and opportunities for better management and greater organizational effectiveness.

The plan and substance of the reports are intended for the focus audience. Program results should be reported frequently and visibly in a result and performance measurement structure. The main focus is on reporting exactly what was accomplished and at what cost to the public.<sup>47</sup>

For example, a report detailing nuclear fuel disposal could be tailored to an EPA group focusing on safety and environmental concerns. Another could focus on the cost and time to transport the fuel or cost to be containerized. These are all measures that can be used to increase efficiency.

#### **BUDGET PREPARATION**

The last stage of the performance budget is to prepare the information and to utilize the results in order to record an actual budget. If all the work and data has been prepared correctly, the performance measurements, objectives are all tied to the required resources. The "ends" from the strategic plan, the "ways" from performance measurements and standards, should give the budget process the output "means", the resources required. This should be the easiest stage to complete and should require little extensive work.

#### REASONS TO CONSIDER PERFORMANCE BUDGETING

The main reason to consider performance budgeting is it is the "law". Current federal management reform initiatives, such as the 1993 Government Performance and Results Act (GPRA), hold federal agencies responsible for using resources prudently and achieving program results. GPRA requires organizations to develop procedures for what they aim to accomplish, measure how well they are doing, create suitable decisions based on the information they have collected, and communicate information about their performance to congress and to the public. This is especially relevant in the fast pace of new information access and other technologies. The defense budget process must be agile to adapt to the rapidly and fluid environment.

A Will Rogers quote, "Thank God we don't get the government we pay for", it is pure cynicism, but how should we use our limited resources to achieve the most effective military organization.<sup>48</sup> This is the key question that U.S. Defense Department, leaders and managers face in determining how to use taxpayers' money most effectively to carry out our mission:

"To provide for the common defense of the nation, its citizens, and its allies; and to protect and advance U. S. interests around the world. To accomplish this mission, the Department maintains trained forces ready to respond to threats to U. S. security arising anywhere on the globe. In peacetime, the United States works with friends and allies to promote a stable world that supports economic growth and provides opportunities for emerging democracies. The routine deployments of U. S. forces overseas, combined with maintenance of ready forces at home, promotes stability and deters the use of force against U. S. interests. The same military

forces that help shape the international environment can also respond quickly to threats to S. S. security when crises arise."  $^{49}$ 

This mission gives us a strategic course, the difficult part is developing the performance measures. From there a budget can be justified to achieve and preserve our national interests. In using a performance based budget we can increase our readiness and prepare for the future, while charting an efficient and effective use of our resources. This will ensure that we get the Defense Department we pay for.

Generating an accurate budget and anticipating future needs is essential. In the day of stealth aircraft and precision guided munitions high expectations from the American people are expected. Conventional methods of budgeting with line items and departmental request should be a thing of the past, and will not be tolerated from a more informed public. Information technology has given us the keys to create budgets and to make predictions that are efficient, accurate and most importantly flexible. Performance budgeting allows leaders to compete government much like business in a very volatile and competitive market.

Leaders with access to outcome based data that is produced as a result of performance budgeting can base their funding assessments on past performance as well as probable expenditures and results. In budget negotiations leaders may discuss a number of inquiries:

- Is this the correct conclusion?
- Is this the most cost effective strategy?
- Can we expect the organization to attain these goals in lieu of its past performance?
- Does the budget point out a more cost benefit use of funds than in the past?

What they will not argue is the quantity of workers needed to complete the task or the kind of equipment to be used. These conclusions are left to department administrator and program managers who construct them into their overall cost estimates.

When private sector companies ignore their customers and their market environment, they fail financially. When governments do the same thing, they earn the disdain of taxpayers and face restrictions at the ballot box that affect their ability to provide services. <sup>50</sup>

#### IMPEDIMENTS IN EXECUTING A PERFORMANCE BUDGET

The path to improving Defense Department's performance and tie it to measurements in the budget process is filled with impediments. Such as:

- Lack of training and understanding in the process by leaders.
- DOD is still reluctant to implement performance budgeting and will not let go of Planning Programming Budget System (PPBS) process.
- The current appropriation system in use by Congress, e.g. military personnel, operations and maintenance, other procurement and research and development, makes it difficult to tie dollars to performance.
- It is impractical to design systems to measure the performance of programs without clearly understanding what the program is trying to accomplish.
- The lack of awareness and use in new information technology systems in a federal government workforce getting ready to retire.
- Using poor quality performance measures and the acceptance of measurements by budgetary decision makers.

Performance based budgeting appears to have worked best at the local level of government, state and city. In these levels of government, the establishment of goals and setting of objectives central to the identification of significant measures are encouraged by a focus of political power in only one branch of government. If the impediments describe above can be addressed, then DOD can share the same results.

I consider the lack of training in the process, as the greatest impediment. In recent years all organizations have been focused on strategic planning, everyone understands and acknowledges this concept. In my seminar group or discussions elsewhere when I mention tying the strategic plan to performance measures, I receive unusual looks. For example at the Army War College, the mission is:

To prepare selected military, civilian, and international leaders to assume strategic leadership responsibilities in military and national security organization; to educate students about the employment of landpower as part of a unified, joint, or multinational force in support of the national military strategy; to research operational and strategic issues; and conduct outreach programs that benefit USAWC, the U. S. Army, and the Nation. 51

When the leaders developed this statement, did they have performance measures in mind? The ability to measure performance is puzzlingly related to a statement of what an organization or program is trying to achieve. What are the appropriate measures of performance at the AWC. The task for clarifying measurements is much more complex for the public sector than for private corporations. A private college or university could easily measure its achievement based on its mission and cost benefit ratios. Public sector organization function in an atmosphere that has to respond to many actors, legislative bodies, elected officials, appointed

executives, the public and in DOD Admirals and Generals. This totally blurs the cost/benefit and makes it difficult to find true performance indicators.

The same emphasis that is placed on strategic planning now needs to be focused on translating these missions and visions into performance measures. This will give our leaders and manager the needed tools to create organizations that are efficient and effective.

Lack of understanding often leads to frequent mistake during the implementation phase and becomes an impediment. Management especially in the military has a tendency to implement performance measurements all at once, on a grand scale: "Starting next week, every manager of every program and subprogram must begin reporting on performance." Mountains of paper are produced; little of it is used for anything. Personnel come quickly to dislike the intrusion of these new, time-consuming, and largely ineffective tasks and are eventually abandoned. 52

DOD officials consider the PPBS process as an effective mechanism to match the national military strategy with the appropriate budgetary resources. They feel it meets the intend of the GPRA with little modification required. In hanging on to PPBS all other initiatives become slowed. Current POM cycles are at least five and sometime seven years to gain funding to programs. In the quick pace of information technology DOD will quickly find itself behind at the budget table. All financial management effort must be placed on performance reforms that have taken root during the last decade. In ignoring these efforts DOD will place many of its programs in jeopardy in congressional debate. When technology is turning over every nine months, programming an item five years out in a POM cycle is not practical. Being able to define requirement quickly based on accurate performance measures, will be the key to successful negotiations in the future.

Performance budgeting requires that funds be allocated according to program activities that are expected to lead to desired outcomes. Under the current appropriations system used by congress, e. g. military personnel, operations and maintenance, other procurement and research and development, makes it difficult to tie dollars to performance. The ability to track performance measures is lost before DOD ever gets a chance. Even if leaders could define appropriate performance measures and capture reliable data, the link between resources and outcomes is severed by this system. The different organizations work with to many different appropriations, which become obstacles to comptrollers to build required metrics. Too often what was planned, programmed, budgeted and executed becomes disconnected over time.

Information Technology (IT) products, services, and delivery process are important resources for results-driven government agency programs.<sup>53</sup> IT is what has given performance budgeting the go ahead in the past decade. A leading organization use a systematic approach

through a results chain in linking organization goals and objectives to the vital few IT performance measures needed to manage for effective results.<sup>54</sup> IT results should start with organizational goals and objectives. From these leaders must craft an IT purpose statement and specific IT goals.<sup>55</sup>

As stated above little effort has been given to training leaders on developing performance measures. This leads to poor measurements being taken with little or no relevance. They do not provide crucial information for making budgetary decisions. The process then becomes the output of monthly or quarterly data reports by workers that provide little benefit. Simultaneously at strategic planning conferences leader must develop measurements for their organizations, this process must become connected. A mission or vision statement is virtually useless if cannot be measured. Training personnel is vital to obtaining quality performance measure.

To make DOD more performance based, accountable, and cost effective requires tools that the government participants can, and know how to use. Training that provides those tools is critical but not easily found. DOD will have to rely on peers from outside to assist in this transition to performance budgeting.

#### GAO ASSESMENT OF IMPLEMENTION OF GPRA

GPRA mandates that the General Accounting Office (GAO) review the implementation of the Act's many requirements and comments on the prospects for compliance by federal agencies. <sup>56</sup> Government wide required implementation began in 1997. DOD continues to grapple with this budget transformation. The progress in achieving the selected outcomes is unclear. GAO reports one of the reasons is the lack of clarity, because the DOD programs are so complex. Further, at the time of the most recent GAO report in June 01, with the new administration, DOD is undergoing a major review of military strategy and business operations. This report was released before the Quadrennial Defense Review 30 September 2001, after this most recent GAO report.

In this report of June 01, GAO reports on six planned outcomes and their ability to comply with GPRA requirements:

- 1. The U. S. maintains technological superiority in key warfighting capabilities. The assessment states that DOD does not provide a direct link to making this goal. Items such as procurement spending on defense technology are not link and measured.
- U. S. forces are adequate in number, well qualified, and highly motivated. DOD is unable to develop performance measures to assess how military personnel are developed or the extend that they are motivated.

- Combat readiness is maintained at desired levels. DOD performance measures should be more complete and meaningful. Some measures had been lowered, incomplete or were not met. This make for an accurate picture extremely difficult.
- 4. Infrastructure and operating procedures are more efficient and cost effective. Performance targets such as disposing of property, reducing logistics response time, and streamlining the acquisition workforce, do hold up to scrutiny. Some of the targets have been lowered or were not met. When targets are not met, there is no strategy or overarching plan for them in the future.
- 5. Reduced availability and or use of illegal drugs. DOD did not have a performance plan or measures from 2000, therefore no basis to assess the program. DOD has developed a set of performance results to determine the effectiveness of its counter drug operations, but to little is available to assess.
- Fewer erroneous payments to contractors. This is a significant problem for DOD;
   currently DOD has no performance measures or goals directly related to achieving these outcomes. <sup>57</sup>

GAO further states that DOD's overall strategic plan is not tied to desired mission outcomes. Inefficiencies in the planning process have led to difficulties in assessing performance in such areas as combat readiness, support infrastructure reduction, force structure needs, and the matching of resources to program spending plans. DOD's progress in achieving the selected outcomes is unclear. The report goes on to recommend that DOD include more qualitative and quantitative goals and measures in its annual performance plan and report to gauge progress toward achieving mission outcomes. GAO also recommended DOD adopts this recommendation as it updates its strategic plan through the QDR.

In reviewing the QDR September 2001, DOD does not mention performance measures at all. The only time the GPRA is reference, is in Appendix A, it states that this report meets the intend of the law.

#### **RECOMMENDATION & CONCLUSIONS**

The Bush administration has accepted the Government Reform initiatives, one of the few that has carried over from the Clinton administration. This is a signal that it is not going to go away. The question is how best to implement PPB in DOD. To implement this transformation in the financial management process is by no means uncomplicated. The tactic today is to keep momentum moving forward and expectations from getting ahead of the ability of existing financial and accounting systems to process.

There are many recommendations that could be made but an education and training strategy should lead the list. Though a DOD wide education strategy, awareness and capabilities can be developed before wide scale implementation and a phased replacement of PPBS. All leaders and managers must recognize performance measures and integrate them in the strategic planning phases.

The next step would incorporate realigning the services to best use performance in budgeting. This is a topic well beyond this SRP, but to make this strategy simple, the following examples are presented. DOD medical, supply, logistic, legal and education systems to name a few, should come under one umbrella, one system, one uniform and ultimately one set of measures and metrics. These areas account for over fifty percent of DOD, these services need to be streamlined to eliminate waste and redundancy. An example, in training to become a diesel mechanic, all services have a different training facility for this specialty. Having four or more facilities does not enhance training or readiness, but just adds to the already deteriorating infrastructure that must be supported. Another example would measure just one medical system, making it easier and allow performance measures to be meaningful. Comparing Bethesda Hospital to Walter Reed Hospital, only blocks apart is not practical or cost effective; but making one hospital competitive and then comparing it to a local hospital would produce true tangible measurements. We only need one hospital not a General in-charge of one and an Admiral in-charge of the other; this does not generate competition but just makes redundancy.

In trying to implement performance budgeting DOD has been focused on measuring things such as readiness, morale or quality of life; these are very abstract and difficult to measure. This is not what the intend of the law is. Measuring abstract items like this only causes management to produce mounds of paperwork, with little or no use. This only reiterates that the first step of implementation must be accomplished with a training and education strategy.

In summary, financial management transformation is not exciting or high profile. It is not flying fighter jets, driving ships, submarines, or commanding tanks. It is difficult and no one directive or regulation has control of the expertise required to achieve it. Financial transformation must be concerned with many small but significant issues; each one of these issues if measured and evaluated for performance, could result in billions of dollar in savings.

During the course at the AWC AY02, the focus has been on Army Transformation and the future. Much of the curriculum has been devoted to Army Transformation and strategic planning. Zero time has been spent on the study of financial transformation, and implementation of GPRA. The Army Transformation Strategic plan should be based in performance measures, which should be an integral part in the Army Transformation process.

DOD is not serious about financial management reform; it wants to maintain the status quo. PPBS is not what the new laws require, DOD continues to maintain that PPBS is performance budgeting. In 1997 Deputy Secretary of Defense was quoted, "I, to be perfectly blunt, have not been all that impressed by GPRA. The main reason is I think we've been doing that for 25 years, maybe not all that well, but we've been doing it for 25 years... I don't think we have to invent anything new."<sup>59</sup> Due to the benefits of PPBS, DOD can claim to be ahead of other government agencies. However, it would be hard to argue that we are on the road to true performance budgeting. The elective in financial management offered at the AWC in AY 02 is not performance budgeting, but PPBS. This reflects the attitude across DOD and the reluctances to change and embrace this initiative.

The Reinventing Government reform movement, the GPRA and the CFOA have been ratified in part to tackle these long reputed shortfalls. They mandate organization to set strategic goals, measure performance, and report to Congress on the extent to which objectives are met. Performance measurement is a means to redefine and reinvent government. If correctly applied, performance measures can improve managerial skills, improve accountability, support strategic planning, and evaluate resources used. The key is training responsible manager and leaders, establishing objectives and meaningful measures. Hence, performance based budgeting can be a crucial tool for DOD and organizations to use as they struggle with the difficult choices needed to implement change, transformation and improve the effectiveness of the military.

Word Count= 6,815

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